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SUBJECT: PART 2 OF 2: CODEL GRAHAM-SCHUMER MEETING WITH  
VICE PREMIER WU YI, MARCH 23, 2006

Classified By: DCM David S. Sedney, Reasons 1.4 (B) and (D).

But IPR Protection Not Accomplished Overnight

¶30. (SBU) One must also recognize that IPR protection will not be achieved in China overnight. IPR protection is closely related to a nation's level of economic development and to achievement levels in science and technology. Given China's population of 1.3 billion persons and low level of scientific and technological achievement, a long period of arduous work, coordinated among government, business and consumers, will be required to achieve IPR protection in China. In the meantime, IPR protection must also be seen as a global issue. Even the United States faces great challenges in IPR protection. The Vice Premier revealed that pirated copies of *Brokeback Mountain* are now available in China. However, the movie version shown on these illegal copies are labeled as not-for-public-screening judges, copies for the annual Oscar Awards presented by the Academy of Motion Picture Arts and Sciences in Hollywood. Where did this IPR violation occur? Should this IPR violation be treated as a Chinese problem, where the pirate copies are for sale, or as an American problem (inferring that that is where a limited distribution copy went into the wrong hands and made possible illegal copying, distribution and sale)?

Conclusion of Soliloquy

¶31. (SBU) China values what has been achieved in promoting bilateral relations with the United States. Both sides should treasure that achievement and further promote the relationship. Asking that her frankness be excused, the Vice Premier yielded the floor to Senators Graham and Schumer.

Senators: Graham-Schumer Bill Based on Constituents, Displeasure

¶32. (SBU) Senator Graham noted the warm welcome extended to the CODEL and that each meeting had proven beneficial. Senior officials had chosen to meet with the group and had clearly prepared to discuss the CODEL's concerns. That hospitality should be repaid with honesty. Maybe Southerners did not always speak with as much directness as they should. He affirmed his respect for China and for the Vice Premier, and underscored his understanding of the importance of this bilateral relationship. He also said like the Ministers with whom the CODEL had met, the Vice Premier lives up to her reputation, too.

133. (SBU) That Senator Schumer, a Democrat trying to wrest power away from Senator Graham,s own party, and he should cooperate on the Graham-Schumer Bill is historic and unusual.

They are working on that legislation together because the people and manufacturers of New York, South Carolina, Georgia, Tennessee, Minnesota and other parts of the country tell Congress that they are losing market share, jobs and even their companies to unfair competition from China. The Vice Premier interrupted to ask whether they tell Congress how much they earn in China. Some do well in China, Senator Graham continued, but others are losing their businesses, and they believe the causes are China,s undervalued currency and IPR losses to Chinese firms. The Senator underscored his agreement with those views. While Congress had received estimates of 15 percent o 40 percent undervaluation of the renminbi, no one could say for sure, so Senator Schumer and he had split that range and used 27.5 percent in their proposed legislation. For three years, they had tried to avoid a Congressional vote on the bill while waiting for Chinese action on the exchange rate. A drastic solution need not be the answer. But after three years of Congressional delay, a vote had become necessary. The vote was itself an historic matter. The leadership of Senator Graham,s party opposed the measure and fought against it, and the White House had called him to ask that the measure not be brought to a vote. After three years of waiting for Chinese action, he had felt he had no choice and his loyalty to the people he represents outweighs loyalty to the political party. The measure was brought to a non-binding vote that had received 67 votes. This convincingly shows that most U.S. Senators share the same view about undervaluation of China,s currency.

134. (C) The good news is that China,s July 2005 2.1

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percent devaluation had created hope on Capitol Hill. But to those who believed the renminbi is undervalued by 40 percent or even 15 percent, the July reform had brought little relief. Senator Schumer and he continue to be encouraged by others on Capitol Hill to move their bill forward. The half-year or so since the July reform has been confusing. Was the July reform politically motivated so as to be seen as not manipulating the currency or was it really motivated by economic reform considerations? The CODEL,s current visit has convinced Senator Graham that revaluation of the renminbi is in China,s own interest. The CODEL would like to leave China believing that China is moving toward further exchange rate reform. Due to many problems, exchange rate reform and appreciation could be a long-term process.

Advice: China Should Make Its Case to the American People

135. (SBU) Senator Graham respectfully asked that senior Chinese officials help persuade the American people that China is on a path to further reform. He noted that his family, all of whom had worked in the textile industry in South Carolina, had all lost their jobs. Such was the price of globalization. Had he wanted to blame China for his family,s and the U.S. textile industry,s woes, he need not have come to China on this trip. But he also sought harmony with China. The rule of law allows different and differing people to live together. Judges in the United States are neither Republicans nor Democrats when sitting on their benches; that provides confidence to all. The sooner that China adopts a floating currency and implements effective IPR protection, the sooner that the American people will have more confidence about China. Addressing these issues can and must be a win-win situation for our two countries.

April,s Importance

136. (SBU) Two important events will occur in April. First, Presidents Hu and Bush will meet again. Senator Graham said it is important for President Hu to be well received, with respect, in the United States. China has accomplished many

great things since 1978, and the Senator hopes the Presidential meeting and visit will go well. Second, after the meeting of the Presidents, Treasury Secretary Snow will issue a report on whether China is manipulating its currency.

In the most recent report of six months ago, the Treasury Department had gone to the edge of declaring China a currency manipulator. The Senator said he hopes that Secretary Snow, and those at this meeting in Beijing, can say at that time that China is on the reform path. The Senator certainly won't say that if he does not believe it. If the Treasury Department finds that China is a currency manipulator, Congressional action on the Graham-Schumer Bill will be very difficult to stop.

137. (SBU) Senator Schumer began by describing his visit to China and the Zhongnanhai setting for the meeting with the Vice Premier as positive experiences. He juxtaposed China's historical greatness and accomplishments as seen at sites such as the Great Wall and Forbidden City with the great muscular future of China evidenced by the great numbers of construction cranes and construction projects everywhere in Beijing. Chinese people are like the American people, he had come to realize. The Chinese people are a large and diverse group with amazing talents and pride in meritocracy, regardless of where one comes from or who one's family was. New Yorkers and Chinese have a natural affinity, shown by more than one million ethnic Chinese in the New York City area. China's history, its energetic present and future, and the people who though different have many similarities to Americans gave the Senator much confidence about China.

138. (C) The Vice Premier had well made her point about the complementarity of the two countries, Senator Schumer continued. But his own candidness was likewise required. Before coming, he had thought that China was most interested in accumulating wealth in a mercantilist way. In the CODEL's discussions with the People's Bank of China Governor Zhou and others, he had come to see that China has been in a first phase of bringing in capital, producing exports and building a certain level of wealth. The Eleventh Five-Year Plan (2006-2010) embodies a new phase, in which more domestic consumption will be promoted to help the 700

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million Chinese living in rural areas. That eight or nine points of twenty-five points highlighted in the new Five-Year Plan focused on increasing domestic consumption is remarkable. China's next phase of economic activity will be complementary to U.S. economic activity. China's financial problems are the inverse of U.S. financial problems. We need to save more and consume less. Americans cannot continue consuming 7 percent more than they produce.

139. (C) Like Senator Graham, Senator Schumer wishes to be convinced that the Chinese currency will be moving to a managed float. He believes that to be in China's own interest. Chinese and U.S. interests regarding the exchange rate now coincide. The Senator recognizes that a complete float would not solve the U.S. trade deficit with China. Indeed, the Graham-Schumer Bill had been introduced to propel action on the currency issue. The trade imbalance is likely to continue. He acknowledged that some of his views about China had begun to evolve since arriving in Beijing three days earlier. He re-emphasized that Congressional action on the currency action had been delayed for three years. Even if implemented tomorrow, the Graham-Schumer Bill allowed for implementation two years after Congressional approval. That window before implementation would still provide opportunity to get leaders to talk about this issue.

140. (C) A final step in possible Congressional action on the Graham-Schumer Bill has now arrived, Senator Schumer concluded. April is the important month. We need Presidents Hu and Bush to convince the American people that we are on a path, even if a gradual path, to a managed floating exchange rate that will change over time. Bank Governor Zhou's

comments to the CODEL at an earlier meeting had been helpful and should be published, the Senator recommended. Another next best step would be to show the American people, American manufacturers and the 65 Senators who had joined Senator Graham and himself in the earlier non-binding vote that there is a means to get to that goal. Real steps are needed to convince people. Having now met the impressive Vice Premier in person and cognizant of her influence, and having been very impressed by the officials with whom the CODEL had met, he is convinced that real actions to demonstrate China's movement on the currency issue would not be very difficult to undertake. He thanked the Vice Premier for her hospitality and valuable time.

#### Wu Yi: Candidness Appreciated; China Faces Many Challenges

¶41. (SBU) The Vice Premier thanked the Senators for their candidness. She was happy that the CODEL's understanding of China had changed since boarding their airplane in Washington. But even that changed understanding of China remains very limited. China is a large country with a huge population and many challenges to overcome. More than 20 million Chinese are still below the poverty line. Uneven development between the rural and urban areas and between the east and west poses challenges for the government. She encouraged the Senators to visit a poorer region in western China as part of the itinerary of their next visit so that they could get a comprehensive understanding of China.

¶42. (C) The key issue of promoting Chinese domestic consumption in the Five-Year Plan highlighted by Senator Schumer showed that U.S. exporters will have a great opportunity to enter the Chinese market in the coming years. Soon China will import one trillion dollars in goods and services annually. Wu Yi said she hopes that U.S. companies will seize opportunities presented by China's growing demand for imports. Regarding the relationship between currency and trade, the Vice Premier cited the CODEL's earlier detailed discussion with Bank Governor Zhou.

#### Graham-Schumer and WTO Dispute Settlement Proceedings

¶43. (SBU) If the Graham-Schumer Bill is adopted by the U.S. Congress, that would have a negative impact on both China and the United States. The Vice Premier opined that the legislation would not survive a challenge in WTO Dispute Settlement proceedings.

¶44. (SBU) The United States and China both have considerable influence. One is the biggest developed

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country, the other is the biggest developing country. The bilateral business ties that have been established were not easily attained. Both sides should cherish the relationship, build on the present and pursue win-win outcomes on the basis of mutual benefit and equality. The Vice Premier asked that the CODEL inform their Senate colleagues about what they had learned while in China. The news might be more convincing on Capitol Hill if delivered by the Senators rather than Chinese officials. The Vice Premier also encouraged more Senators, Representatives and professional staff to visit China; they would be welcome. The meeting concluded with the Vice Premier's wishes for a successful visit to Shanghai, the CODEL's next stop, and a presentation by the Chinese meeting participants of additional Chinese publications on IPR protection in China.

¶45. (U) Participants at this ninety-minute meeting conducted in the Ziguan Pavilion in the Zhongnanhai leadership compound are listed below:

#### United States

United States Senator Lindsey Graham (R-SC)  
United States Senator Charles Schumer (D-NY)

Ambassador Clark T. Randt, Jr.  
Matt Rimkunas, Legislative Assistant to Senator Graham  
Kevin Bishop, Communications Director for Senator Graham  
Jeff Hamond, Legislative Assistant to Senator Schumer  
Risa Heller, Press Secretary to Senator Schumer  
Economic Officers Christopher Beede, Brent Christensen, and  
Ryan Stoner  
Embassy Interpreter James Brown

#### China

Madame Wu Yi, Vice Premier of the State Council of the  
People,s Republic of China  
Jiang Enzhu, Chairman, Foreign Affairs Committee, National  
People,s Congress  
Bo Xilai, Minister of Commerce  
Zhou Xiaochuan, Governor, People,s Bank of China  
He Yafei, Assistant Foreign Minister  
Professional staff members, Foreign Affairs Committee,  
National People,s Congress  
Interpreter

¶46. (U) CODEL staff have cleared this report.  
RANDT